

Thrift Bulletin

Handbook: Thrift Activities
Subjects: Noninvestment Grade Securities; Investment Securities
Classification of Assets

Sections: 220; 260
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Noninvestment Grade Corporate Debt Securities

Summary: This Bulletin alerts directors and management of thrift institutions to a new policy for the classification of noninvestment grade corporate debt securities.

For Further Information Contact: Your District Office or the Thrift Programs Division of the Office of Thrift Supervision, Washington, D.C.

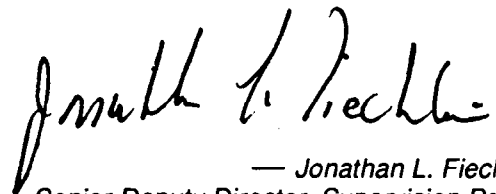
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Classification of Noninvestment Grade Securities

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) mandates the divestiture of all noninvestment grade corporate debt securities from thrift institutions as soon as prudently possible and in all cases by July 1,

1994. As a result, for noninvestment grade corporate debt securities *maturing on or after July 1, 1994*, generally accepted accounting principles (GAAP) require that such securities be carried at the lower of cost or market (LOCOM) because an institution loses its ability to hold such securities until they mature. Securities that *mature before July 1, 1994* are not automatically subject to LOCOM. The Office of Thrift Supervision will otherwise apply the "Uniform Agreement on the Classification of Assets" of the federal bank regulatory agencies to all noninvestment grade corporate debt securities.

The Uniform Agreement states that "Securities in grades below the four highest rating grades and unrated securities of equivalent value will be valued at market price and the depreciation will be classified Doubtful; remaining book value will be classified Substandard. Depreciation in defaulted securities will generally be classified Loss; remaining book value will be classified Substandard." Where noninvestment grade securities are carried at LOCOM, the valuation allowance is classified Loss (specific reserve) and the remaining book value will be classified Substandard.



— Jonathan L. Fiechter
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